

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Special Session

**FISCAL AND POLICY NOTE**

House Bill 53 (Delegate Howard)  
 Ways and Means

**Sales and Use Tax - Rates**

This bill increases the State sales and use tax rate from 5% to 7%.

The bill takes effect January 1, 2008, unless legislation is enacted during the 2007 special session to (1) expand the State’s sales and use tax base; or (2) limit the total funding required to provide an adequate education for children attending public schools in the State in prekindergarten through grade 12, through implementation of the program commonly known as the Bridge to Excellence in Public Schools Act.

**Fiscal Summary**

**State Effect:** General fund revenues would increase by \$632.0 million in FY 2008, representing increased revenue collections for a six-month period. Future year revenues would increase by \$1.4 billion in FY 2009 and by \$1.6 billion in FY 2012. One-time general fund expenditure increase of \$71,100 in FY 2008 relating to administrative costs.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	\$632.0	\$1,360.4	\$1,425.3	\$1,508.4	\$1,585.0
GF Expenditure	.1	0	0	0	0
Net Effect	\$631.9	\$1,360.4	\$1,425.3	\$1,508.4	\$1,585.0

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None

**Small Business Effect:** Meaningful.

## Analysis

**Current Law:** The Maryland sales and use tax rate is 5%. All State sales and use tax revenues are deposited in the general fund except the amount necessary to pay refunds withheld by the Comptroller and to cover administrative expenses. In addition, 45% of the sales and use tax collected on short-term vehicle rentals is dedicated to the Transportation Trust Fund (TTF). This amount will total \$28.8 million in fiscal 2008.

**Background:** The sales and use tax rate was last increased in 1977. **Exhibit 1** shows the sales and use tax rates in surrounding states.

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### Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%
Maryland	5%
Pennsylvania	6% plus 1% in certain local jurisdictions 0% sales tax on clothing
Virginia	5%, includes 1% for local jurisdictions
West Virginia	6%

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State sales and use tax general fund revenues are estimated to total approximately \$3.5 billion in fiscal 2008 (after the deductions discussed above). Sales and use tax revenues are forecasted to grow through fiscal 2012 at an annual rate of about 5.0%.

**State Revenues:** Increasing the sales tax to 7% would generate \$632.0 million in additional revenues in fiscal 2008, which reflects the bill's January 1, 2008 effective date and slightly less than one-half year sales tax collections (based on historical sales tax collection data). As **Exhibit 2** indicates, revenues would increase by approximately \$1.4 billion in fiscal 2009 and \$1.6 billion in fiscal 2012. This estimate reflects currently projected sales tax growth as well as an estimated 1.9% decline in taxable sales resulting from the sales tax rate increase.

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**Exhibit 2**  
**Increase in Sales and Use Tax Revenues**  
**(\$ in Millions)**

<u>Current Estimates</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
General Fund Sales Tax Revenues	\$3,516.7	\$3,680.0	\$3,881.8	\$4,079.2	\$4,285.9
Implied Taxable Sales at 5% Rate	69,630.0	72,869.1	76,875.8	80,792.0	84,894.2
Implied Taxable Sales After 1.95% Decline	68,307.0	71,484.6	75,415.1	79,257.0	83,281.2
Sales Tax Revenue at 7% Rate	4,816.7	540.5	5,317.1	5,587.6	5,870.9
<b>Increased Sales Tax Revenues*</b>	<b>\$632.0</b>	<b>\$1,360.4</b>	<b>\$1,435.3</b>	<b>\$1,508.4</b>	<b>\$1,585.0</b>

\*Fiscal 2008 estimate is based on January 1, 2008 effective date and less than one-half year collections.

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The 1.9% decline in taxable sales reflects sales that would no longer be subject to Maryland sales tax for three reasons: • the sale does not take place at all because the increased cost dissuades the purchaser; • the sale is diverted to a neighboring state where the sales tax rate is lower; or • the sale is diverted to a remote seller, such as an Internet or mail order retailer. To the extent that the impact on sales volume varies from this projection, sales tax revenues would rise or decline correspondingly.

**State Expenditures:** The Comptroller's Office indicates that it would incur a one-time expenditure of \$71,100 in fiscal 2008 to notify the 127,268 sales tax account holders of the rate change that is effective January 1, 2008 (mailing costs of \$0.559 per account).

**Small Business Effect:** To the extent that the additional sales tax rate encourages consumers to shift purchases to out-of-state or remote sellers and away from Maryland retailers that are small businesses, these small businesses could experience a meaningful negative impact. Small businesses may also experience minimal additional costs to reprogram their cash registers.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - November 2, 2007  
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